

NCF Technical Assistance Providers often field questions related to a community's risk as it relates to their employees, residents, and contractors. This handout dives into some of those questions to help your Board better understand your community's coverage and manage liability.

Required Policies

As a condition of the community's mortgage, lenders require the following policies: **General Liability, Property, Crime, Directors & Officers Liability, and Volunteer coverage.** Lenders require these policies as a safeguard against a community defaulting on their loan because of a major lawsuit or instance of fraud.

Under state law, all community-owned trucks and autos must be covered by an **auto insurance policy**. State law also requires a **Workers Compensation policy** if your community has one or more paid employees.

Coverage that is recommended, but not required, includes: proof of coverage from **contractors** (like carpenters and plumbers) and **umbrella policies**.

Some insurance agencies may have additional coverage requirements attached to certain policies. For example, some agencies may require a community to take out a commercial auto policy if they are purchasing umbrella coverage.

General Liability

General Liability insurance protects against accidents and injuries on the premises. This could include bodily injury or damage to a third party, medical expenses, lawsuits, investigations, etc. All resident-owned communities are required to have minimum coverage of \$1 million.



Example: A pothole in the street fills with water, a child who doesn't live in the community falls in and is severely injured.

Property

Property coverage includes all community buildings, sheds, and garages based on their replacement cost. All community buildings and community-owned equipment should be listed on the Statement of Values (SOV) of your property coverage. All property policies should cover replacement values, not actual values.



Example: A tornado blows through your community and rips the roof off the community building.

Directors & Officers

Directors & Officers (D&O) protects against lawsuits brought against the Board. This protects the community against the Board's failure to act.



Example: An applicant isn't screened properly and ends up stealing money from the community office, or the Board does not act on a community danger that has been identified.

Volunteers

Volunteer insurance covers those injured while performing volunteer work for the community. In addition to buying volunteer coverage, volunteers should sign a Volunteer Waiver form.



Example: A resident of the community volunteers to trim the trees in front of the community building and falls off the ladder and is severely injured.

Recommended Policies

NCF recommends that all communities require that contractors provide a **certificate of insurance** naming the co-op or corporation as a certificate holder before any work begins. As a certificate holder and additional insured, your community will be notified of any changes or cancellations in the contractor's coverage and will be protected if the contractor is sued for injuring a person or damaging someone's property while working for your community.

Umbrella policies are also recommended. Umbrella policies provide coverage over other, existing policies and increase overall coverage. For example, if your community has General Liability of \$1 million and the community purchases an additional umbrella policy of \$1 million, the total coverage for General Liability would be \$2 million. Umbrella policies are typically inexpensive to add to existing coverage.

How Your Insurance Gets Paid

Your lender and the type of policy determines how insurance policies are paid. Most NCF-supported communities have a mortgage with ROC USA Capital. If that is the case for your community, part of the community's monthly mortgage payment is escrowed (put into a kind of savings account) to pay for General Liability, property, and D&O insurance. If a policy is paid out of escrow, it means the community does not pay for the policy out of Operating expenses. If the community receives an invoice for any of these policies, make a copy of the invoice and send it to ROC Capital who will pay it.

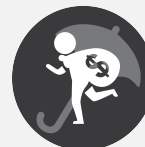
If you accidentally pay for any of these policies, ROC Capital will reimburse you. Send a copy of the invoice and proof that the invoice was paid (a cancelled check or bank statement) to ROC Capital to process the reimbursement.

All other policies are paid out of Operating expenses or by third-party contractors. If the community receives an invoice for Workers Comp.,

auto, or a volunteer policy, it should be paid out of the Operating account.

Crime/Fidelity

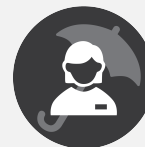
Also known as employee dishonesty or fidelity coverage, crime coverage protects the community from employee dishonesty losses. Directors are not covered under this policy. Co-ops typically have \$100,000 minimum coverage for employees handling \$1,000 or more. Types of crimes include forgery, theft, computer fraud, and funds transfer fraud.



Example: The Onsite Manager steals money from the cooperative/corporation by depositing rent checks into their own personal account instead of the co-op/corporation's account.

Workers Compensation

Workers Compensation is required by State law if you have one or more employees and covers job-related injuries.



Example: The office manager falls and injures herself while shoveling snow in front of the office.

Automobile

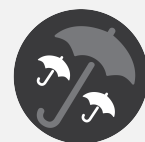
Auto insurance is required by the State for all automotive vehicles and should include collision, liability, personal injury, uninsured and underinsured motorists' coverage. Be sure that anyone who regularly drives the vehicle has a valid driver's license.



Example: A resident volunteer is using the community-owned truck to plow snow throughout the community and backs into another resident's vehicle.

Umbrella

An umbrella policy increases your liability coverage amount. Umbrella policies are typically inexpensive to add if you're concerned your community is insufficiently covered.



Additional Insurance Best Practices

1) Know Your Insurance Agent(s)

Insurance account managers and agents are the best resource when it comes to managing exposure to liabilities and answering questions about coverage. Staying familiar with the people who manage your policies will help you stay on top of changes in your community's exposure and be prepared when/if a claim needs to be processed. Remember, your community might have different agents for different policies. For example, the community may carry General Liability, property, and D&O policies through The Hanover Insurance Group, but the Workers Compensation policy is through SFM Mutual Insurance.

2) Educate Your Residents

Whenever possible, educate residents about the community's insurance coverage and strongly encourage residents to maintain their own homeowners insurance policies. In the case of accessory equipment like pools and trampolines, make sure that residents sign liability waivers and provide proof of adequate insurance coverage for use of the accessory equipment.

3) Educate Your Employees & Volunteers

Before any new staff begin work, make sure they are aware of the process for filing a workers compensation claim. All volunteers should understand they are not covered by the community's workers compensation policy and sign liability waivers before performing any work in the community. The community's policies do not cover residents' homes and other property, accidents, or injuries caused by residents.

4) Review Your Policies

On an annual basis, Boards should review insurance policies and make sure all the community's property and vehicles are listed on the property and auto insurance policies. Some policies, like workers compensation, may require annual reviews (often called "audits") that help the insurance agency more accurately determine premium payments. If required, all reviews and audits must be completed before policies are renewed. Check with the community's insurance agent to make sure all reviews are completed in time for policy renewal.

Contractors & Bookkeepers

You should require all contractors to provide a certificate of insurance naming your community as an additional insured holder before any work begins. As a certificate holder, you will be notified of any changes or cancellations in their coverage and will be protected if the contractor is sued for injuring a person or damaging someone's property.

Just like any other employee who handles money, your bookkeeper is required to have \$100,000 of their own employee dishonesty coverage.

Example: An employee of a contractor you hired to patch the street in your community is injured on the job.



A note about Property Taxes...

In addition to many of your insurance policies, your community's property taxes are paid by your lender out of your escrow account. If you receive an invoice for your property taxes, you should not pay it. Make a copy of the invoice and send it to your lender who will make sure the taxes are paid.

REQUIRED POLICIES

By Lender

- ✓ **General Liability**
- ✓ **Property Insurance**
- ✓ **Directors & Officers**
- ✓ **Crime/Fidelity**
(bookkeeper/property manager must carry their own policy)
- ✓ **Volunteers**

By State

- ✓ **Worker's Comp**
(if community has *paid* employees)
- ✓ **Auto**
(if community owns any)

RECOMMENDED

- ✓ **Umbrella**
- ✓ **Contractors**
(electricians, carpenters, plumbers, etc.)

INSURANCE PAID FOR

Out of Escrow

- ✓ **General Liability**
- ✓ **Property Insurance**
- ✓ **Directors & Officers**
- ✓ **Crime/Fidelity**
(bookkeeper/property manager must carry their own policy)
- ✓ **Umbrella**

Out of Operating

- ✓ **Worker's Comp**
(if community has *paid* employees)
- ✓ **Auto**
(if community owns any)
- ✓ **Volunteers**

By Other Parties

- ✓ **Contractors**
(electricians, carpenters, plumbers, etc.)
- ✓ **Bookkeepers**